Forget the Great Recession - Think the Great Depression.

In late 2017 the Trump Administration proposed and passed a massive tax cut into an already humming economy. The results were more redistributive than expansionary, because the economy was already close to full employment. Because interest rates were so low, large amounts of the funds freed up by the tax cut went into the stock market and real estate. Wages rose only slowly.

There have been proposals in the past week to send checks to millions of American households. These checks should be large ($1,000 per month) and continuing (at least 6 months). Without them, aggregate demand will collapse. Forget the Great Recession … think the Great Depression.

Younger Americans may not be aware that throughout the Great Depression, the unemployment rate was in the high teens compared to the 3.5 to 4 percent that we have seen in the past couple of years. In December 1939, the unemployment rate was 17.2 percent; in December 1940 it was 14.6 percent; on the eve of Pearl Harbor in 1941, it was 9.9% (source: https://www.thebalance.com/unemployment-rate-by-year-3305506). The New Deal did not make the Great Depression go away. World War II did. Aggregate demand skyrocketed because families and households now had jobs, after a decade or more of unemployment and poverty. The unemployment rate fell close to zero.

Is it possible that some checks will go to those who don’t need them? Absolutely! Is it possible that there will be fraud? Again, absolutely! Might people spend them on cigarettes or alcohol, rather than on healthy food or rent? Again, absolutely, although one can point to corporate activities subsequent to the 2017 tax cut, in which corporate executives enriched themselves and stockholders by raising their salaries, and buying back stock shares, rather than paying their workers more, raising productivity, or raising production.

As of 2019, personal consumption expenditures constituted 70 percent of the economy. Even a 10 percent decrease in consumer spending will drastically affect the economy. Incomes and levels of wealth will fall. Many health professionals believe that there will also be substantial increases in self-medication (think substance abuse) to mitigate the pain. Forget the Great Recession … think the Great Depression.

Allen C. Goodman
Professor of Economics